

A Foreign Corporation is defined as one which is originally incorporated outside of the jurisdiction of the Commonwealth of the Northern Mariana Islands.

1. If you already have an existing corporation incorporated outside of the CNMI and would like to do business here you must file with the Registrar of Corporations an Application for Certificate of Authority of Foreign Corporation, an original Certificate of Existence or Certificate of Good Standing issued by the state or jurisdiction where the corporation is incorporated, together with the filing fee of \$100.00 and two copies of the application. Upon approval of the application, the Registrar of Corporations will issue you a Certificate of Authority to do business in the CNMI.

The initial annual report must be filed with the Registrar of Corporations within 60 days after the Certificate of Authority is granted.

2. You must obtain a Business License before you can actually begin doing business. Follow the same procedure as described in

the section on Corporations.

3. You are also required to submit an Annual Corporation Report to the Registrar along with a \$50.00 filing fee.

4. All Foreign Corporations are required to file foreign corporation tax returns annually. Please pick up the Foreign Corporation Tax form 1120 F from the office of Revenue and Taxation. The 1120F return must be filed by March 15 every year.

5. All Foreign Corporations are required to file the Commonwealth Business Gross Revenue Tax return on a quarterly basis. You can pick up these forms at the office of Revenue and Taxation.

Foreign Sales Corporation

Under the Foreign Sales Corporation Incentive Act of 1984 CNMI Public Law 4-15, a Foreign Sales Corporation, as defined under the Internal Revenue Code qualifies for CNMI tax exemptions with respect to the Gross Revenue Tax, Territorial Income Tax and any and all license fees except the FSC business license fee. In order to qualify for such tax exemptions a FSC must be (a) incorporated in the CNMI, (b) have an office or agent in the CNMI, (c) have at least one director who is a resident of the CNMI. The rules and regulations governing FSC's are complicated and we suggest that you secure an attorney to assist you in the formation of an FSC. The following are standard procedures for creating a

FSC in the CNMI.

1. A FSC must file its Articles of Incorporation with the Registrar of Corporations.

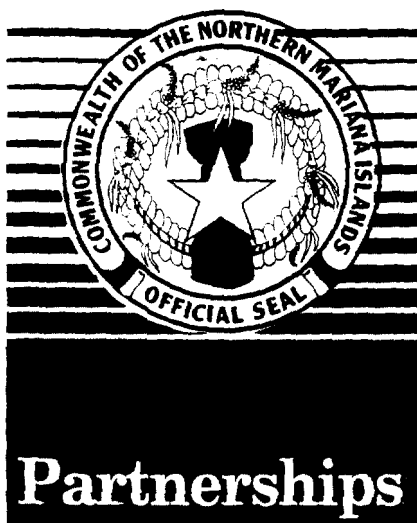
2. A FSC must apply for a business license from the Department of Commerce. The cost of a business license is \$500. The application must be accompanied by:

A- A copy of the Articles of Incorporation and By-Laws;

B-A copy of its most recent election under the United States Internal Revenue Code of 1954, as amended, to be treated as a FSC and, if applicable, to be treated as a small FSC; or if the applicant has not yet made an election it shall pledge to furnish the Secretary of Commerce a copy of its election within 90 days after making the election.

C- Information identifying its resident director and the location of its Commonwealth office.

3. Even if no tax is due, a FSC must file an Informational Tax Return with the Director of Revenue and Taxation, Department of Finance. The informational tax returns shall be filed at the same time the FSC's tax returns shall be filed with the United States Internal Revenue Service. The informational return shall consist of a copy of the Form 1120 and all schedules and worksheets attached which are filed or to be filed by the FSC with the United States Internal Revenue Service, together with a Form 1120 CM. The Director may require any FSC to submit additional information substantiating its qualification for tax exemptions or of FSC treatment under the United States Internal Revenue Code. Make sure to attach a copy of your business license to any corporate income tax return that is filed.



General partnerships consist of two or more people who decide to form a business as partners. The details of the partnership relationship are agreed upon by the partners and should be contained in a partnership agreement, which is prepared usually by an attorney. In a general partnership the partners have unlimited liability. General partners are jointly and severally liable for obligations of the partnership. Partners are taxed on share of partnership income whether or not distributed. Corporate taxes do not apply. Since there are no partnership laws in the CNMI, it is important that all aspects of the partnership be set forth in a written agreement.

1. Although it is not required, a partnership may complete a Partnership

Registration Form and file it with the Registrar of Corporations. The Partnership Registration Form should be signed by all partners and acknowledged before a notary public. You may also submit for filing with the Registrar of Corporations your partnership agreement.

2. The cost for filing the general partnership agreement and Registration form with the Registrar of Corporations is \$ 25.00.

3. All Partnerships are required to obtain a Business License before doing any business in the CNMI. Please submit your business license application along with a copy of your partnership agreement as filed with the Registrar of Corporations. Please refer to the Business Licensing Fees section of this booklet to determine if your business activity does not fall outside the standard \$50.00 filing fee.

4. All Partnerships are required to file the 1065 Partnership annual tax return along with the K-1 schedule which details the partnerships earnings so that each partner will only be taxed on their share. The 1065 return is due on the 15th of April every year. You can pick up these returns at the office of Revenue and Taxation.

5. All partnerships are required to file quarterly with the office of Revenue and Taxation the Commonwealth Business Gross Revenue Tax return. You can pick up the BGRT returns at the office of Revenue and Taxation.

Sole Proprietorship

A sole proprietorship is a business owned by only one individual. Owner liability is unlimited, and therefore personal property can be attached by creditors to settle business debts. However, sole proprietors are not subject to corporate taxation.

1. Sole proprietors need only obtain a Business License before doing business in the CNMI. Sole proprietors are not required to file any documents with the Registrar of Corporations.

2. The sole proprietor is responsible for filing the quarterly BGRT return

with the Division of Revenue and Taxation.

3. The sole proprietor is responsible for filing the annual 1040 income tax return by April 15 each year. They do not have to file any corporate tax returns.

4. If you decide to take in an employee you must file an Application for a Federal Employment Identification Number form SS-4, and comply with all rules and regulations regarding employment of resident and non-resident workers.

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Subchapter S Corporation

Subchapter S Corporations are usually chosen as the legal form of business ownership by smaller corporations. Subchapter S Corporations limit the number of stockholders to 35 or less. S Corporations allow each stockholder to pay individual income tax rather than the corporation paying corporate tax. Any net operating loss is deductible by the shareholders.

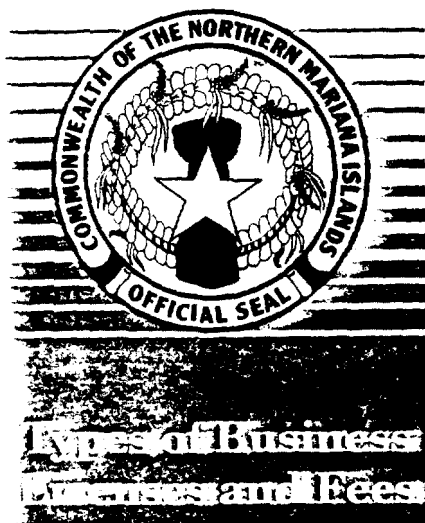
1. The procedure for establishing a Subchapter S Corporation is exactly the same as that for establishing a standard domestic corporation.

2. Subchapter S Corporations must obtain a Business License before doing business in the CNMI. The standard license fee is \$50.00 per business activity. Follow the same procedures as set out for corporations. Please contact the Business Licensing Office to determine if your business activity is subject to a different fee.

3. All Subchapter S corporations are required to file an Internal Revenue Service "Election for Subchapter S Corporation Status".

4. All Subchapter S corporations are required to file a corporate tax return annually. Please pick up Subchapter S Corporation Tax return 1120 S at the office of Revenue and Taxation. The 1120S return must be filed by March 15 every year.

5. The Commonwealth requires that all Subchapter S corporations file the BGRT return on a quarterly basis. You can pick up these returns at the Division of Revenue and Taxation.



Annual Business License Fees range from \$5 to \$1,000 depending upon the type of business activity. The following non-refundable fees shall be paid to the Commonwealth Treasury for the following classes of licenses at the time of filing the application:

A. Security dealers	\$300
B. Security brokers	50
C. Investment advisors	50
D. Banks	50*
E. Finance	300
F. Trust	300
G. Mortgage companies	50
H. Credit union	50
I. Insurance companies	300
J. Foreign exchange	50
K. Insurance brokers	100
L. Insurance agents	\$ 75
M. Insurance solicitors	50
N. Insurance adjuster	100
O. Public utilities	300
P. Manufacturers(fee for each business activity)	50
Q. Wholesalers	50
R. Nonprofit organizations	50

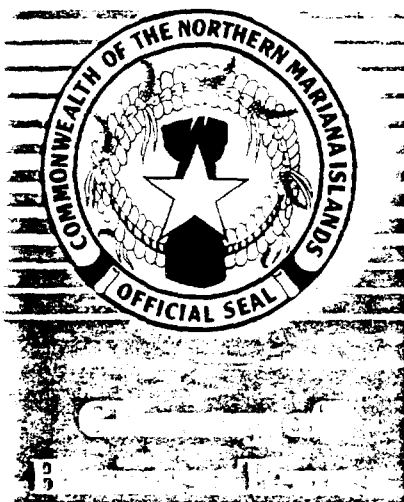
S. Roadside vendors selling local agricultural and fishery products,	5
T. Commercial fishing license per net tonnage of vessel	50
U. Scuba diving instruction	100
V. Scuba Diving Tour Operations	100
W. General business license covering all other businesses. For each distinct business activity	50
X. License amendment fee	25
Y. License replacement fee	25

Banking Licensing Fees

New Application Fee	\$5,000
Retail Banking License	1,000
General Business License	50*
Renewal	\$1,000 + \$50*
*per Senatorial District	
Offshore Banks	
1st Year	\$5,000
2nd year	10,000
3rd year	15,000
4th year	20,000
5th year and thereafter	25,000

Foreign Investor Certificate Fees

Short-Term	\$ 0
Regular-Term	200
Long-Term	1,000
Foreign Invest. Visa	2,500
Foreign Inv. Certificate	10,000
Late Fee (per day)	100



We recommend that you familiarize yourself with basic business terms. Understanding business terms will assist you when filing applications, applying for loans and attending business related workshops and seminars.

ACCOUNTS PAYABLE: The amount owed by the business to its creditors for purchases of goods and/or services.

ACCOUNTS RECEIVABLE: The amount due the business from its customers for goods and/or services sold on credit.

AMORTIZATION: The gradual reduction of debt by periodic payments. This is also the term used for gradual reduction/writing off over a period of time in the book value of fixed or intangible assets, deferred charges and prepaid expenses. When you get a loan from the bank, you will receive a schedule of payments for paying back the money. This is an amortization schedule.

ASSETS: All of that which a business owns, including cash, merchandise inventories, real estate, equipment, supplies and copyrights.

BALANCE SHEET: Statement of financial position of business at a particular point in time; lists what is owned and owed.

BALLOON PAYMENT: The last payment on a loan; it is substantially larger than the previous payments.

CAPITAL: An accounting term describing the excess of assets over liabilities, capital is generally used to refer to cash and other assets used by the business to make money. Capital accounts include money raised through the sale of stock and retained earnings. Capital equipment is equipment used to generate more revenue.

CASH FLOW: Projection of how much cash a business will have at the end of each month. It is important for a business to project its cash flow so a loan, or other source of money, can be applied for during periods of negative cash flow.

COLLATERAL: The pledging of property as security for a loan. Many small loans are

unsecured, therefore they don't require collateral.

COMMERCIAL LOAN: Credit extended by a bank to a business, most frequently on a short-term and unsecured (not requiring collateral) basis.

COMMON STOCK: Certificates evidencing ownership of a corporation and generally giving the stockholder voting rights. Common stockholders have rights inferior to those who hold the corporation's bonds, preferred stock, and other debts.

CORPORATE RESOLUTION: A document presented to a bank by a corporation. It defines the authority given to the officers and specifies who may sign checks, borrow on behalf of the corporation, and otherwise issue instructions to the bank and conduct the corporation's business. The powers listed in the resolution are granted by the corporation's directors.

CORPORATION: A legal entity created under the laws of a state to carry on some business or other authorized activity. The principal distinction between a business corporation and other forms of business organization (i.e., proprietorship) is the fact that the liability of the owners is limited to the capital of the subject corporation.

CREDIT: An advance of cash, merchandise, or other commodity in exchange for a promise or other agreement to pay at a future date, with interest if so agreed.

DEBIT: A charge against a customer's deposit or bank account. Debit entries increase the balance of an asset or expense account and decrease the balance of a liability or equity account.

DEPRECIATION: The decline in value of a limited-life tangible asset, such as a building, machine, vehicle, equipment, furniture, etc., due to age, and to the normal wear and tear of use. In general, equipment is depreciated by a portion of the original cost for each year.

DIRECTORS: The individuals, elected by stockholders, who comprise the board of directors and therefore constitute the active, governing body of a corporation.

DUTIES (tariffs): Amounts charged when goods are imported into a country. If based on the goods' values, they are called ad valorem. If based on the number of items imported, they are called specific.

EQUITY: The value of an enterprise or property that is owned; the actual value of the owner's financial interest in an enterprise.

FINANCING: Adding to the operating funds of a business by either loans or purchase of debt securities or capital stock.

LEASE: A contract between the owner (lessor) and the tenant/user (lessee) stating the conditions under which the tenant may occupy or use a property, a vehicle, equipment, etc.

LIABILITIES: The sum of debts or obligations of a business. Normally, the liabilities appear on the credit side of a Balance Sheet.

This may be further broken down into current liabilities, long-term liabilities, etc.

LOAN: A business contract between a borrower and lender, covering an extension of credit.

MARKETING: Group of related business activities aimed at satisfying the demand for goods and services.

MORTGAGE: A deed, usually to real estate, given to secure the repayment of a loan made by the mortgagee (lender).

NET WORTH: Property owned (assets) minus debts and obligations (liabilities).

OBLIGATIONS: Any kind of debt owed.

PARTNERSHIP: A legal relationship existing between two or more persons contractually associated as joint principals in a business.

PREFERRED STOCK: Securities that give the holder a right to share in a bank's or corporation's profits before common shareholders. If the institution is liquidated, preferred stockholders have a prior claim on its assets over common stockholders and certain other creditors. Preferred stock usually does not give the holder voting rights.

RATIO: The relationship of items in financial statements; financial ratios are those derived from comparisons of balance sheet items, such as total assets to total liabilities; operating ratios are those derived from comparisons of items of income and expense.

REGISTRAR: A bank or trust company appointed by a corporation to ensure that the number of shares of outstanding stock does not exceed the authorized limit. A registrar is agent both for the corporation and the latter's stockholders, since it protects the interests of both.

RETURN ON INVESTMENT (ROI): The amount earned from each dollar put into the business to generate revenues.

SOLE PROPRIETORSHIP: A business entity privately owned by a single individual.

SPECIFIC TARIFF OR DUTY: This is a method of measuring customs duties tariffs by number or weight instead of by value (see ad valorem). Thus, the amount will be determined based on how many units or how many pound or kilos are imported, regardless of their value.

SUBCHAPTER "S" CORPORATION: A private corporation of 35 or fewer stockholders who pay personal income tax rather than corporate income tax on net profits.

TARIFF QUOTA: A tariff which has a lower rate during a specified period or until a specified amount of the commodity has been imported. At that point, the rate increases.

UNSECURED LOAN: Credit extended without collateral.

VALUE-ADDED-TAX (VAT): This is a tax levied at each stage of production. The tax is on the value added to the product by that stage.